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AZ CORP COMMISSION
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HATCH-MILLER PROPOSED AMENDMENT #1

DENYING THE CEC

Arizona Corporation Commission

DOCKETED

MAY 25 2007

DATE/TIME PREPARED: May 25, 2007 @ 8:00 am

DOCKETED BY

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COMPANY: Southern California Edison Company

AGENDA ITEM NO. #3

DOCKET NO. L-00000A-06-0295-00130

OPEN MEETING DATE: May 30, 2007

The Arizona Corporation Commission ("Commission") has conducted its review, pursuant to A.R.S. § 40-360.07. Pursuant to A.R.S. § 40-360.07(B), the Commission, in compliance with A.R.S. § 40-360.06 and in balancing the broad public interest, the need for an adequate, economical and reliable supply of electric power with the desire to minimize the effect thereof on the environment and ecology of this state, finds that the above-captioned Application for a Certificate of Environmental Compatibility ("CEC") for siting approval is hereby denied.

Discussion

Southern California Edison Company (the "Applicant") purports the Project will enhance resource adequacy for Arizona and Arizona ratepayers. However, the evidentiary record indicates that the need for the Project is less compelling for Arizona and Arizona ratepayers than for California and CASIO ratepayers. The Applicant's plan to absorb Arizona's excess generating capacity will force the installation of new generation in Arizona sooner. Staff testified that Arizona electric utilities will not own enough generating capacity to meet all their loads in 2010 and therefore will have to rely on merchant power plants, particularly at those located at the Palo Verde Hub. The Commission finds the Project will not improve the resource adequacy for Arizona and Arizona ratepayers and could have deleterious effect on it in subsequent years.

The Applicant purports that Arizona and Arizona ratepayers will receive considerable economic benefits from the Project. The evidentiary record indicates that the Project is designed

to meet the economic needs of California and CAISO ratepayers, not the needs of Arizona and Arizona ratepayers. The economic benefits to California and CAISO ratepayers have been quantified and documented by the Applicant. The economic benefits espoused by the Applicant to Arizona and Arizona ratepayers can be characterized as temporary, indirect, illusory or speculative. However, the economic costs to Arizona and Arizona ratepayers have been quantified and documented by the Applicant. Furthermore, Staff testified that spot wholesale prices at the Palo Verde Hub are estimated to increase by at least 5% if the Project were approved and constructed. The Commission finds that economic benefits accrue predominantly to California and CAISO ratepayers, while economic costs accrue predominantly to Arizona and Arizona ratepayers.

The Applicant purports that the Project will strengthen the Southwestern transmission grid because congestion would be reduced on Path 49 between Arizona and California. Staff contends that the Applicant's proposed special protection schemes for the Project could actually weaken the reliability of the grid. The Commission has the authority to establish reliability standards higher than the minimum requirements established by regional and national reliability organizations. The conditions originally proposed by Staff were intended to create sufficient reliability benefits for Arizona and Arizona ratepayers. The Siting Committee did not adopt Staff's conditions as proposed, which would have provided sufficient reliability benefits to offset partially the lack of economic benefits for Arizona and Arizona ratepayers. The Commission finds that even if the Siting Committee adopted Staff's conditions as proposed, the economic costs to Arizona and Arizona ratepayers simply outweigh the modest transmission and commercial enhancements to the Western Grid that are derived from the Project.

The Commission further finds and concludes that in balancing the broad public interest under A.R.S. § 40-360.07(B) in this matter:

1. the evidence in the record is not sufficient to weigh the balancing of the public interest in favor of granting a CEC in this matter when all the factors set forth in A.R.S. § 40-360.06 are considered along with need for an adequate economical, and reliable supply of electric power;

2. the conditions placed upon CEC by the Arizona Power Plant and Transmission Line Siting Committee ("Siting Committee") are not sufficient to weigh the balancing of the public interest in favor of granting a CEC in this matter when all the factors set forth in A.R.S. § 40-360.06 are considered along with the need for an adequate, economical, and reliable supply of electric power;
3. the record compels balancing the competing public interests in favor of protection of the environment and ecology of the State of Arizona by denying Applicant a Certificate of Environmental Compatibility;
4. the CEC issued by the Siting Committee should not be confirmed and approved by the Commission; and
5. the Commission's findings 1 through 4 above and the findings set forth in this Order's discussion serve as the Commission's findings of fact and conclusions of law in reaching its decision.

Therefore, the Commission further finds and concludes that the CEC issued by the Siting Committee is hereby denied by this Order; and, the above-captioned Application for a CEC is hereby denied by this Order.

**THE ABOVE CAPTIONED APPLICATION FOR A CEC IS DENIED, AND,
THE CEC ISSUED BY THE SITING COMMITTEE IS
INCORPORATED HEREIN AND IS DENIED BY ORDER OF THE
ARIZONA CORPORATION COMMISSION**

Make conforming changes as necessary